Bankers Trust Company

Economic Benchmarks

October 27, 1983

THE ECONOMIC RECOVERY AFTER ONE YEAR

The economic recovery from the 1981-82 recession is doing far better at its first anniversary than was generally anticipated at the outset. Despite the persistently high interest rates, and even though a few smokestack industries continue to lag, the gains so far recorded by total output and industrial production are about average by historical standards, and so is the increase in employment. At the same time, corporate profits have rebounded impressively and the progress on inflation remains encouraging. Nonetheless, the business outlook is being viewed with a discernible note of uneasiness this autumn. The economic statistics have not been making as good reading recently as during the spring, and because of prevailing financial market conditions, forecasts call for a further slackening in the pace of business expansion in the months ahead.

The fact, however, that the economy has lost some of its earlier strong momentum is not surprising, given the exceedingly hot summer and the lengthy telephone strike, nor is such a pattern out of line with prior cyclical experience. Economic upturns in the wake of past recessions typically were highly uneven and prone to slow noticeably after an initial burst of growth. Also, it should be kept in mind that the resilience and buoyancy of the economy have been underestimated throughout the past year, and they may be again. Not only is this still a comparatively young economic expansion, but as yet there are no convincing signs that it is really running out of steam.

Areas of Support The majority of companies are only just beginning to rebuild depleted inventories, and both in manufacturing and trade stocks on hand clearly are low by every accepted standard of measurement. Inventories are particularly lean among automobile dealers. Reflecting this, car production in the fourth quarter is being scheduled nearly 65 per cent above a year ago, and at its highest level in five years. The step-up in auto production alone will provide a significant stimulus to general business activity into the winter. In view of the present high cost of carrying stocks on hand and existing uncertainty over the course of sales, there is little reason to expect any broad rush to accumulate inventories elsewhere. But with order backlogs in manufacturing rising and delivery times gradually lengthening and with more industrial purchasing agents reporting having to pay higher prices, for a time at least nearly all producers, retailers and wholesalers will be striving to augment and balance working stocks, thereby bolstering industrial production and employment.

This desire to add to inventories will no doubt be reinforced by the resumption of the advance in consumer spending, the key factor propelling the economy forward in the spring. Retail sales improved markedly in September. While the biggest gain was in purchases of automobiles, which were held down earlier by the thinness of dealers' inventories, spending for nearly all types of consumer goods has picked up. With increasing availability of the new models and orders backlogged, auto sales can be expected to move higher through the autumn and into the winter, and a good Christmas selling season seems to be shaping up for other retailers.

Consumer confidence is relatively high, judging from the latest surveys. Employment is rising, and along with it personal income; because of the "underground economy," the level of income probably is significantly higher than is shown by the official statistics. Consumer spending power continues to benefit from last July's tax cut, and from the still subdued rate of inflation. And a great number of families have enjoyed a considerable increase in their net worth this past year, owing to the substantial rise in the stock market.

Also favorable to the consumer outlook is the fact that there are still pent up demands for many goods, as evidenced by the advanced age of cars on the road. And many consumers are presently in a position—and willing—to augment their spending by the use of credit. Moreover, consumer credit is readily available, even if relatively high priced, and there is little evidence to suggest that consumer buying is being materially deterred at this point by the level of interest rates. The comparatively low personal saving rate appears to rule out a renewed surge in buying, but consumer spending should continue to provide important support to the economy.

The Government Sector Regardless of the behavior of interest rates, business activity will be receiving a lift in the period ahead from rising Government spending. Although, as often happens, the Defense Department is having difficulty increasing expenditures as rapidly as anticipated, it stepped up contracting appreciably at the close of the fiscal year just past, and the amount of unfilled military orders has risen sharply this past year. At the same time, nondefense Federal outlays continue to advance, in spite of the widely recognized need for fiscal restraint. In addition, there has been a pickup in construction activity recently at the state and local level and the

QUARTERLY ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1982				1983				1984			
	1st (act.)	2nd (act.)	3rd (act.)	4th (act.)	1st (act.)	2nd (act.)	3rd (prel.)	4th (proj.)	1st (proj.)	2nd (proj.)	3rd (proj.)	4th (proj.)
GNP (const. 1972$)	1485.8	1489.3	1485.7	1480.7	1490.1	1525.1	1554.4	1578.0	1595.0	1611.7	1628.1	1640.2
Per cent change (1)	—5.5	1.0	—1.0	—1.3	2.6	9.7	7.9	6.2	4.5	4.3	4.0	3.0
GNP price deflator (2)	203.4	206.1	208.0	210.0	212.8	214.5	216.4	218.8	221.7	224.9	228.3	232.0
Per cent change (1)	4.3	5.6	3.7	3.8	5.5	3.3	3.4	4.5	5.5	5.8	6.2	6.7
Consumer price index (3)	283.3	287.0	292.4	293.8	293.2	296.6	300.0	303.8	307.8	311.9	316.4	321.3
Per cent change (1)	1.3	9.8	4.1	.5	.4	5.4	5.3	5.0	5.5	5.5	6.0	6.5
Gross national product	3021.4	3070.4	3090.7	3109.6	3171.5	3272.0	3363.3	3452.2	3536.2	3624.0	3716.4	3805.2
Consumer spending	1938.9	1972.8	2008.8	2046.9	2073.0	2147.0	2186.5	2240.1	2298.1	2354.5	2409.9	2463.4
Durable goods	239.4	242.9	243.4	252.1	258.5	277.7	284.2	297.0	309.2	318.2	326.3	332.4
Autos and parts	106.4	107.6	109.4	116.1	118.4	133.9	137.2	146.5	154.3	158.7	162.5	164.9
Other durables	133.0	135.3	134.0	136.0	140.1	143.8	147.0	150.5	154.9	159.5	163.7	167.5
Nondurable goods	749.7	754.7	766.6	773.0	777.1	799.6	818.7	836.4	857.7	876.4	894.4	911.8
Services	949.7	975.2	998.9	1021.8	1037.4	1069.7	1083.6	1104.7	1131.3	1159.9	1189.2	1219.3
Investment outlays	422.9	432.5	425.3	377.4	404.1	450.1	501.0	523.6	542.5	559.1	573.1	585.2
Fixed investment	448.6	443.7	430.2	433.8	443.5	464.6	489.2	505.6	522.5	537.1	549.1	559.2
Nonresidential	361.3	352.7	342.3	337.0	332.1	336.3	348.4	358.4	370.0	382.7	394.7	404.9
Structures	144.7	144.2	140.0	138.6	132.9	127.4	130.5	132.7	135.3	139.2	144.1	148.3
Equipment	216.5	208.5	202.2	198.4	199.3	208.8	217.9	225.6	234.7	243.6	250.6	256.6
Residential	87.3	91.0	87.9	96.8	111.3	128.4	140.7	147.3	152.5	154.4	154.4	154.4
Change in inventories	—25.7	—11.2	—4.9	—56.4	—39.4	—14.5	11.8	18.0	20.0	22.0	24.0	26.0
Net exports	29.9	33.3	.9	5.6	17.0	—8.5	—25.9	—30.7	—37.4	—38.5	—38.0	—37.7
Exports	358.4	364.5	346.0	321.6	326.9	327.1	339.2	347.4	354.1	364.3	377.3	392.4
Imports	328.5	331.2	345.0	316.1	309.9	335.6	365.1	378.1	391.5	402.8	415.3	430.0
Government expenditures	629.8	631.6	655.7	679.7	677.4	683.4	701.8	719.1	733.0	748.9	771.5	794.2
Federal	249.7	244.1	261.7	279.2	273.5	273.7	281.2	290.3	294.9	301.3	314.1	326.9
National defense	168.1	175.2	183.6	190.8	194.4	199.4	205.6	213.1	221.9	232.2	242.6	252.8
Other	81.7	68.9	78.1	88.5	79.1	74.3	75.4	77.2	73.0	69.1	71.5	74.1
State and local	380.0	387.5	394.0	400.5	404.0	409.7	420.6	428.8	438.1	447.6	457.4	467.4
Final sales	3047.1	3081.4	3095.6	3165.9	3210.9	3286.6	3351.5	3434.2	3516.2	3602.0	3692.4	3779.2
Per cent change (1)	3.9	4.6	1.9	9.4	5.8	9.8	8.1	10.2	9.9	10.1	10.4	9.7
Final sales (const. 1972$)	1495.9	1492.7	1487.0	1503.4	1505.5	1530.5	1549.6	1569.8	1585.9	1601.9	1617.6	1629.0
Per cent change (1)	—1.3	—.8	—1.5	4.5	.6	6.8	5.1	5.3	4.2	4.1	4.0	2.9
Personal income	2528.1	2563.2	2591.3	2632.0	2657.7	2713.6	2761.4	2835.7	2913.5	2986.2	3055.6	3125.4
Disposable income	2127.9	2159.0	2191.5	2227.8	2255.9	2301.0	2361.5	2424.0	2489.5	2550.5	2608.7	2667.1
Disposable income (1972$)	1055.1	1060.2	1059.3	1066.1	1073.8	1083.1	1100.8	1117.7	1135.3	1149.1	1161.0	1171.2
Saving rate (per cent)	6.1	5.9	5.6	5.4	5.4	4.0	4.7	4.9	5.0	5.0	4.9	5.0
Pretax profits	173.2	178.8	177.3	167.5	169.7	203.3	227.4	241.0	250.0	258.5	267.1	274.6
Nonfinancial	159.6	160.2	157.1	144.0	141.9	171.2	194.4	207.5	216.0	224.0	232.0	239.0
Domestic operating	127.7	126.5	127.5	114.3	133.9	165.7	197.5	212.0	219.0	225.0	231.0	236.0
Domestic inventory	5.5	8.5	9.0	10.3	1.7	10.6	15.1	17.5	19.0	21.0	23.0	25.0
Capital consumption adj.	5.6	3.5	—.1	—4.7	—13.9	—25.6	—38.2	—43.0	—44.0	—45.0	—46.0	—47.0
Foreign	20.7	21.7	20.7	24.1	20.2	20.5	20.0	21.0	22.0	23.0	24.0	25.0
Financial	13.6	18.6	20.2	23.5	27.8	32.1	33.0	33.5	34.0	34.5	35.1	35.6
After-tax profits	112.9	117.4	116.5	113.5	108.2	127.2	141.2	149.5	155.2	160.6	166.0	170.8
Plant & equipment exp.	327.7	323.2	315.8	302.8	293.0	296.6	303.8	312.5	323.6	335.1	345.5	354.7
Private housing starts (4)	.90	.95	1.12	1.26	1.69	1.68	1.79	1.70	1.70	1.68	1.65	1.60
Auto sales-incl. imports (4)	8.00	7.68	7.79	8.45	8.37	9.23	9.23	9.80	10.25	10.50	10.60	10.60
Industrial production (3)	141.8	139.4	138.2	135.3	138.5	144.5	151.6	156.3	160.0	162.8	165.0	167.0
Per cent change (1)	—11.7	—6.6	—3.4	—8.1	9.9	18.4	21.2	13.0	10.0	7.0	5.5	5.0
Unemployment rate (per cent)	8.7	9.3	9.8	10.5	10.2	10.0	9.3	8.8	8.5	8.3	8.1	8.0

(1) quarter to quarter, annual rate
(2) index number, base 1972 = 100
(3) index number, base 1967 = 100
(4) millions of units
Note: data are seasonally adjusted at annual rates.

Economics Department
October 27, 1983

ANNUAL ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1981	1982	1983	1984	Per Cent Change				Per Cent Change (4th Qtr. to 4th Qtr.)			
	(act.)	(act.)	(proj.)	(proj.)	1980-81	1981-82	1982-83	1983-84	1980-81	1981-82	1982-83	1983-84
GNP (constant 1972$)	1513.8	1485.4	1536.9	1618.7	2.6	—1.9	3.5	5.3	2.0	—1.7	6.6	3.9
GNP price deflator (1)	195.1	206.9	215.7	226.7	9.4	6.0	4.3	5.1	8.7	4.4	4.2	6.0
Consumer price index (2)	272.4	289.1	298.5	314.4	10.4	6.1	3.2	5.3	9.6	4.5	3.4	5.7
Gross national product	2954.1	3073.0	3314.7	3670.5	12.2	4.0	7.9	10.7	10.8	2.6	11.0	10.2
Consumer spending	1857.2	1991.9	2161.7	2381.5	11.3	7.3	8.5	10.2	9.3	7.5	9.4	10.0
Durable goods	236.1	244.5	279.4	321.5	10.0	3.5	14.3	15.1	3.2	9.2	17.8	11.9
Autos and parts	101.6	109.9	134.0	160.1	12.0	8.1	22.0	19.5	2.3	20.3	26.2	12.6
Other durables	134.5	134.6	145.4	161.4	8.5	.1	8.0	11.0	3.9	1.3	10.7	11.2
Nondurable goods	733.9	761.0	808.5	885.1	9.7	3.7	6.2	9.5	7.8	3.4	8.5	8.7
Services	887.1	986.4	1073.8	1174.9	13.1	11.2	8.9	9.4	12.2	10.4	8.1	10.4
Investment outlays	474.9	414.5	469.7	565.0	18.2	—12.7	13.3	20.3	15.7	—20.7	38.7	11.8
Fixed investment	456.5	439.1	475.7	542.0	10.9	—3.8	8.3	13.9	8.2	—6.1	16.6	10.6
Nonresidential	352.2	348.3	343.8	388.1	14.1	—1.1	—1.3	12.9	15.9	—8.3	6.3	13.0
Structures	133.4	141.9	130.9	141.7	20.2	6.4	—7.7	8.3	27.0	—4.7	—4.2	11.7
Equipment	218.8	206.4	212.9	246.3	10.6	—5.7	3.2	15.7	9.6	—10.7	13.7	13.7
Residential	104.3	90.8	131.9	153.9	1.4	—13.0	45.4	16.7	—13.9	2.7	52.1	4.8
Change in inventories	18.5	—24.5	—6.0	23.0	*	*	*	*	*	*	*	*
Net exports	26.3	17.4	—12.0	—37.9	*	*	*	*	*	*	*	*
Exports	368.8	347.6	335.1	372.0	8.9	—5.7	—3.6	11.0	7.4	—13.3	8.0	12.9
Imports	342.5	330.2	347.2	409.9	8.8	—3.6	5.1	18.1	6.1	—7.5	19.6	13.7
Government expenditures	595.7	649.2	695.4	761.9	10.8	9.0	7.1	9.6	11.4	9.1	5.8	10.4
Federal	229.2	258.7	279.7	309.3	16.3	12.9	8.1	10.6	20.3	12.4	4.0	12.6
National defense	154.0	179.4	203.2	237.4	17.4	16.5	13.2	16.8	19.8	14.5	11.7	18.6
Other	75.2	79.3	76.5	71.9	14.2	5.4	—3.5	—6.0	21.0	8.2	—12.7	—4.1
State and local	366.5	390.5	415.8	452.6	7.5	6.6	6.5	8.9	6.2	7.0	7.1	9.0
Final sales	2935.6	3097.5	3320.8	3647.5	11.1	5.5	7.2	9.8	9.7	4.9	8.5	10.0
Final sales (const. 1972$)	1505.3	1494.8	1538.9	1608.6	1.8	—.7	3.0	4.5	1.2	.2	4.4	3.8
Personal income	2435.0	2578.6	2742.1	3020.2	12.5	5.9	6.3	10.1	11.1	4.6	7.7	10.2
Disposable income	2047.6	2176.5	2335.6	2578.9	12.0	6.3	7.3	10.4	11.1	5.1	8.8	10.0
Disposable income (1972$)	1054.7	1060.2	1093.8	1154.2	3.2	.5	3.2	5.5	3.4	.2	4.8	4.8
Saving rate (per cent)	6.6	5.8	4.7	5.0	*	*	*	*	*	*	*	*
Pretax profits	227.0	174.2	210.4	262.6	—3.2	—23.3	20.8	24.8	—7.3	—22.9	43.9	13.9
Nonfinancial	208.5	155.2	178.7	227.7	—.4	—25.6	15.2	27.1	—4.4	—28.4	44.1	15.2
Domestic operating	150.2	124.0	177.3	227.7	24.9	—17.4	43.0	28.5	16.4	—23.3	85.5	11.3
Domestic inventory	23.6	8.4	11.2	22.0	*	*	*	*	*	*	*	*
Capital consumption adj.	11.0	1.1	—30.2	—45.5	*	*	*	*	*	*	*	*
Foreign	23.7	21.3	20.4	23.5	—20.7	—8.0	—6.3	15.1	14.5	—10.4	—12.9	19.0
Financial	18.4	19.0	31.6	34.8	—27.3	3.3	66.6	10.1	—32.8	45.1	42.6	6.2
After-tax profits	144.1	115.1	131.5	163.2	—3.8	—20.1	14.3	24.1	—3.4	—19.9	31.8	14.2
Plant & equipment exp.	321.5	316.4	301.5	339.7	8.7	—1.6	—4.7	12.7	9.4	—7.6	3.1	13.5
Private housing starts (3)	1.08	1.06	1.72	1.66	—16.1	—2.0	62.1	—3.4	—42.2	44.9	34.8	—5.9
Auto sales-incl. imports (3)	8.54	7.98	9.16	10.49	—4.9	—6.5	14.7	14.5	—18.6	16.6	16.2	8.2
Industrial production (2)	151.0	138.6	147.7	163.7	2.7	—8.2	6.5	10.8	—1.7	—7.5	15.5	6.9
Unemployment rate (per cent)	7.3	9.5	9.5	8.2	*	*	*	*	*	*	*	*

(1) index number, base 1972 = 100.
(2) index number, base 1967 = 100.
(3) millions of units.
*Not applicable.

Economics Department
October 27, 1983

economic recovery is contributing to renewed growth in purchases of other goods and services, as well as to an improvement in many state and municipal budget positions.

Business Investment Meanwhile, business spending on new plant and equipment, which except for computers, word processors and some other high technology equipment, had been lagging earlier, is embarked on a recovery and should move higher in the next year. Corporate profits are up substantially—and cash flow even more, because of the step-up in depreciation—and factory operating rates have been rising steadily; for manufacturing as a whole the operating rate will soon be approaching 80 per cent, a level which traditionally triggers a wave of capital spending. Indeed, the latest Government survey of industry intentions indicates that there were some upward revisions in capital expenditure plans over the summer. Even oil and gas drilling has recently turned upward, though admittedly from very depressed levels.

That the downtrend in capital spending has been reversed is confirmed by other developments. Contracts for stores and warehouses have risen since the spring. Machinery and equipment orders have been trending upward for some months. Also manufacturers, on balance, are increasing their new capital appropriations, and for the first time in close to three years the backlog of upspent appropriations is increasing. Plant expansion programs no doubt will continue to be tempered by the problems in a number of heavy industries, the continuing inroads being made in some industrial markets by foreign competition and by financial constraints. However, so far business investment appears to be less sensitive to the existing level of interest rates than had been widely assumed.

Course of Housing The firming of interest rates since the spring clearly is having an adverse effect on home building. There was a falloff in sales of new houses during July and August and the number of new building permits issued likewise declined over the summer, which was followed by a drop in housing starts in September. Still, residential building does not seem poised for any marked additional weakening at this time. About half of the recent decline in new construction activity was in multifamily units, which have been quite volatile this year. There is still a very large volume of unused building permits, while the number of mortgage commitments outstanding is currently close to a record. More important is that the savings and loan associations are continuing to garner relatively large deposit inflows, indicating that residential mortgage money will remain available, the more so since new-home buyers are becoming increasingly willing to assume adjustable rate mortgages, which tend to be preferred by the lenders. At the same time, the recent resumption of the advance in housing prices is providing an incentive for some to buy a new home now in spite of the prevailing level of mortgage rates.

As with housing, no stimulus to economic activity in the period ahead can be expected from the foreign trade sector, a major drag on the economy these past two years. This is in marked contrast with the situation after the 1974-75 recession. U.S. imports will continue to rise, given the extent of the economic recovery. But our exports are not likely to experience any significant improvement until well into next year, even though economic growth is getting underway again among some of our major trading partners, because of the protracted strength of the dollar and the resulting loss of competitiveness of American goods in world markets. On balance, though, the lack of strength here will be outweigned by the emerging support elsewhere.

Financial Environment In fact, at the moment there appears to be a greater chance that the economic recovery will gather momentum again for a time than that business activity will soften abruptly and appreciably. If so, this could bring renewed upward pressures on interest rates, which already are abnormally high and firm for this stage of the cycle. While the economy has proven remarkably immune thus far to today's high borrowing costs, any further extended advance, especially in long-term rates, would be bound to take its toll. In any event, the financial environment stands as the major uncertainty in the business outlook.

Unlike in previous economic recoveries, the credit and capital markets in the coming months must contend not only with the typical cyclical increase in private sector demands for credit, but with the ongoing enormous borrowing requirements of the Government. The Federal deficit in the current fiscal year promises to total not far below 1983's record $195 billion figure, with the prospect of little further improvement in sight for the years beyond, since it seems very unlikely that any meaningful action to reduce Government spending and enhance Treasury revenues will be taken by the Congress and the Administration before the 1984 elections. Though some point to the behavior of interest rates in previous periods of high Government borrowing and challenge the belief that Federal deficits boost interest rates, the deficits now in prospect are of such immense magnitude relative to the size of the economy and to the flow of national savings as to render earlier experience no longer relevant.

This continuing unhealthy fiscal situation also means that it will not be possible for monetary policy to be as accommodative as in the past, and as might be desirable. The Federal Reserve cannot let money and credit grow too rapidly without setting the stage for a speedup of inflation —and, more important, without reinforcing inflationary expectations. In short, without something significant being done to improve the fiscal outlook, the likelihood that this economic recovery will stay vigorous and remain long lived is questionable.

Bankers Trust Company

Economic Benchmarks

February 29, 1984

THE ECONOMY IN 1984 - A REAPPRAISAL

Even though industrial production accelerated over the winter and most other key economic statistics have made better reading lately, the strength and staying power of the business upswing nevertheless is again being questioned, much as it was early in 1983. This is in spite of the fact that the economy has performed far better since the start of the recovery than was generally anticipated, that this economic expansion is still young by historical standards, and that business activity has usually done well in years of national elections.

As was true a year ago, the current uneasiness over the outlook stems primarily from the lofty level of interest rates, and from worry that the huge ongoing Federal budget deficit will serve to push rates even higher later this year and next. But broadening concern is developing over the position of the dollar in international exchange markets; a few forecasters have also turned pessimistic because of the slower growth in the basic money supply during the latter half of 1983. Further clouding economic prospects are the sharp decline in the stock market so far in 1984 and the widespread perception that the economic expansion has reached a stage where it is bound to lose significant momentum.

The uneasiness over the Federal budget situation and about the effects of the protracted strong dollar is, to be sure, fully warranted, though both developments pose more of a threat to the economy's performance after 1984 than they do this year. The behavior of the money supply, however, hardly is grounds for pessimism at this point, given the recent speedup in both its growth and velocity and the existing fiscal stimulus. And experience indicates that a drop in stock prices is by no means a certain portent of impending economic softness; while the stock market has never failed to signal a general weakening in business activity, it frequently has declined without any real economic softening taking place.

Indeed, the record indicates that real growth typically advances in fits and starts throughout periods of business expansion, moving ahead fairly rapidly initially, slackening for a time, and then, just as often as not, accelerating again. Most likely, this will be the pattern this year, and the economy may once more out-perform the consensus forecast. Not only is the composite index of leading economic indicators pointing convincingly toward strength now, but, notwithstanding the persistent high interest rates, there are no signs as yet of the imbalances or excesses that normally serve to bring on a sustained slowdown in overall activity.

Key Sectors New home construction, usually the first important sector of the economy to lose steam, continues to hold up surprisingly well. After reaching a peak last summer, housing starts fell back for a time. But they rose to a five-year high in January and, though the pick-up was no doubt in part a reaction to the better building weather over much of the country, a number of signs point to the maintenance of construction activity at a high level for at least several more months.

Sales of new houses surged during December and were apparently almost as strong in January, so that the inventory of unsold new houses is now comparatively low. Meanwhile, demographic factors are favorable and the number of people who can afford to buy a house—or condominium—for the first time is growing. Also, new building permits are still being issued in very large volume and the same is true of new mortgage commitments; additionally, there is a sizable amount of unused permits and outstanding mortgage commitments. Most important, residential financing is readily available, thanks to the effects of deregulation on the thrift institutions and the widespread acceptance by the public of the adjustable rate mortgage. Moreover home mortgage interest rates actually have come down a bit since last summer, and builders are still making concessions.

Similarly, the notion that consumer spending, the driving force behind the upturn in business activity this past year, will be affording significantly less support in the coming months is being refuted by recent developments. While the gain registered by retail sales in December fell well short of expectations, the Christmas selling season nonetheless was the best in several years. Moreover, consumer buying was stepped up noticeably during January, with new-car sales turning in a particularly impressive performance; and automobile sales were even better in mid-February. Conditions seem conducive to consumer spending continuing at a good pace.

The rapid fall in the jobless rate and the substantial growth of employment and the increase in working hours the past few months have combined to raise personal income and bolster consumer confidence, thereby prompting a great deal more purchasing on credit, despite the relatively high financing charges. Consumers

QUARTERLY ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1982				1983				1984			
	1st (act.)	2nd (act.)	3rd (act.)	4th (act.)	1st (act.)	2nd (act.)	3rd (act.)	4th (act.)	1st (est.)	2nd (proj.)	3rd (proj.)	4th (proj.)
GNP (const. 1972$)	1485.8	1489.3	1485.7	1480.7	1490.1	1525.1	1553.4	1571.9	1597.4	1617.7	1634.9	1651.4
Per cent change (1)	−5.5	1.0	−1.0	−1.3	2.6	9.7	7.6	4.9	6.7	5.2	4.3	4.0
GNP price deflator (2)	203.4	206.1	208.0	210.0	212.8	214.5	216.4	218.7	221.6	224.9	228.4	232.3
Per cent change (1)	4.3	5.6	3.7	3.8	5.5	3.3	3.6	4.2	5.5	6.0	6.5	7.0
Consumer price index (3)	283.3	287.0	292.4	293.8	293.5	296.6	300.0	303.6	307.4	311.9	316.7	322.0
Per cent change (1)	1.3	9.8	4.1	.5	.4	5.4	5.3	4.0	6.0	6.0	6.5	7.0
Gross national product	3021.4	3070.4	3090.7	3109.6	3171.5	3272.0	3362.2	3437.3	3540.2	3637.7	3734.8	3836.7
Consumer spending	1938.9	1972.8	2008.8	2046.9	2073.0	2147.0	2181.1	2227.0	2292.9	2351.5	2408.0	2463.6
Durable goods	239.4	242.9	243.4	252.1	258.5	277.7	282.8	297.4	316.7	327.1	335.4	341.7
Autos and parts	106.4	107.6	109.4	116.1	118.4	133.9	135.6	144.7	158.8	164.4	168.4	170.9
Other durables	133.0	135.3	134.0	136.0	140.1	143.8	147.2	152.7	158.0	162.7	167.0	170.8
Nondurable goods	749.7	754.7	766.6	773.0	777.1	799.6	814.8	823.6	843.5	861.8	880.6	899.8
Services	949.7	975.2	998.9	1021.8	1037.4	1069.7	1083.5	1106.0	1132.7	1162.6	1192.0	1222.1
Investment outlays	422.9	432.5	425.3	377.4	404.1	450.1	501.1	528.2	549.7	569.2	584.3	601.4
Fixed investment	448.6	443.7	430.2	433.8	443.5	464.6	492.5	517.7	537.2	554.2	568.3	583.4
Nonresidential	361.3	352.7	342.3	337.0	332.1	336.3	351.0	376.2	390.7	404.2	419.0	436.0
Structures	144.7	144.2	140.0	138.6	132.9	127.4	130.9	134.8	138.1	141.4	145.1	149.9
Equipment	216.5	208.5	202.2	198.4	199.3	208.8	220.2	241.4	252.7	262.8	273.9	286.0
Residential	87.3	91.0	87.9	96.8	111.3	128.4	141.5	141.5	146.5	150.1	149.3	147.4
Change in inventories	−25.7	−11.2	−4.9	−56.4	−39.4	−14.5	8.5	10.5	12.5	15.0	16.0	18.0
Net exports	29.9	33.3	.9	5.6	17.0	−8.5	−18.3	−18.7	−21.8	−23.4	−21.7	−18.1
Exports	358.4	364.5	346.0	321.6	326.9	327.1	341.1	352.3	362.4	374.5	390.3	408.5
Imports	328.5	331.2	345.0	316.1	309.9	335.6	359.4	371.0	384.2	397.9	412.0	426.6
Government expenditures	629.8	631.6	655.7	679.7	677.4	683.4	698.3	700.9	719.3	740.3	764.2	789.9
Federal	249.7	244.1	261.7	279.2	273.5	273.7	278.1	275.6	285.8	295.8	307.5	320.0
National defense	168.1	175.2	183.6	190.8	194.4	199.4	201.2	206.0	214.5	224.5	234.5	244.4
Other	81.7	68.9	78.1	88.5	79.1	74.3	76.9	69.6	71.3	71.3	73.0	75.6
State and local	380.0	387.5	394.0	400.5	404.0	409.7	420.2	425.3	433.6	444.5	456.8	469.9
Final sales	3047.1	3081.4	3095.6	3165.9	3210.9	3286.6	3353.7	3426.9	3527.7	3622.7	3718.8	3818.7
Per cent change (1)	3.9	4.6	1.9	9.4	5.8	9.8	8.4	9.0	12.3	11.2	11.0	11.2
Final sales (const. 1972$)	1495.9	1492.7	1487.0	1503.4	1505.5	1530.5	1549.7	1568.1	1591.8	1611.0	1627.9	1643.6
Per cent change (1)	−1.3	−.8	−1.5	4.5	.6	6.8	5.1	4.8	6.2	4.9	4.3	3.9
Personal income	2528.1	2563.2	2591.3	2632.0	2657.7	2713.6	2761.9	2835.3	2907.0	2979.6	3049.4	3122.1
Disposable income	2127.9	2159.0	2191.5	2227.8	2255.9	2301.0	2361.7	2424.0	2484.2	2545.1	2603.6	2664.6
Disposable income (1972$)	1055.1	1060.2	1059.3	1066.1	1073.8	1083.0	1100.1	1121.3	1136.4	1148.8	1158.3	1166.9
Saving rate (per cent)	6.1	5.9	5.6	5.4	5.4	4.0	4.9	5.4	4.9	4.8	4.7	4.8
Pretax profits	173.2	178.8	177.3	167.5	169.7	203.3	229.1	221.5	232.0	245.0	256.0	265.0
Nonfinancial	159.6	160.2	157.1	144.0	141.9	171.2	198.6	192.6	203.0	215.5	226.0	235.0
Domestic operating	127.7	126.5	127.5	114.3	133.9	165.7	194.5	206.0	215.0	225.0	233.0	238.0
Domestic inventory	5.5	8.5	9.0	10.3	1.7	10.6	18.3	7.1	10.0	14.0	18.0	22.0
Capital consumption adj.	5.6	3.5	−.1	−4.7	−13.9	−25.6	−37.6	−46.5	−48.0	−50.0	−52.0	−53.0
Foreign	20.7	21.7	20.7	24.1	20.2	20.5	23.4	26.0	26.0	26.5	27.0	28.0
Financial	13.6	18.6	20.2	23.5	27.8	32.1	30.5	28.9	29.0	29.5	30.0	30.0
After-tax profits	112.9	117.4	116.5	113.5	108.2	127.2	144.1	141.1	147.3	155.2	161.9	167.6
Plant & equipment exp.	327.7	323.2	315.8	302.8	293.0	293.5	304.7	315.5	326.0	337.6	350.4	364.4
Private housing starts (4)	.90	.95	1.12	1.26	1.69	1.68	1.79	1.69	1.85	1.80	1.75	1.65
Auto sales-incl. imports (4)	8.00	7.68	7.79	8.45	8.37	9.23	9.23	9.93	10.75	10.75	10.90	11.00
Industrial production (3)	141.8	139.4	138.2	135.3	138.5	144.5	151.8	155.6	159.4	162.1	164.3	166.3
Per cent change (1)	−11.7	−6.6	−3.4	−8.1	9.9	18.4	21.8	10.6	10.0	7.0	5.5	5.0
Unemployment rate (per cent)	8.7	9.3	9.8	10.5	10.2	9.9	9.2	8.4	8.0	7.7	7.4	7.2

(1) quarter to quarter, annual rate
(2) index number, base 1972 = 100
(3) index number, base 1967 = 100
(4) millions of units
Note: data are seasonally adjusted at annual rates

Economics Department
February 29, 1984

ANNUAL ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1981 (act.)	1982 (act.)	1983 (act.)	1984 (proj.)	Per Cent Change 1980-81	1981-82	1982-83	1983-84	Per Cent Change (4th Qtr. to 4th Qtr.) 1980-81	1981-82	1982-83	1983-84
GNP (constant 1972$)	1513.8	1485.4	1535.1	1625.4	2.6	−1.9	3.3	5.9	2.0	−1.7	6.2	5.1
GNP price deflator (1)	195.1	206.9	215.7	226.9	9.4	6.0	4.2	5.2	8.7	4.4	4.1	6.2
Consumer price index (2)	272.4	289.1	298.4	314.5	10.4	6.1	3.2	5.4	9.6	4.5	3.3	6.1
Gross national product	2954.1	3073.0	3310.8	3687.3	12.2	4.0	7.7	11.4	10.8	2.6	10.5	11.6
Consumer spending	1857.2	1991.9	2157.0	2379.0	11.3	7.3	8.3	10.3	9.3	7.5	8.8	10.6
Durable goods	236.1	244.5	279.1	330.2	10.0	3.5	14.2	18.3	3.2	9.2	18.0	14.9
Autos and parts	101.6	109.9	133.2	165.6	12.0	8.1	21.2	24.4	2.3	20.3	24.6	18.1
Other durables	134.5	134.6	145.9	164.6	8.5	.1	8.5	12.8	3.9	1.3	12.3	11.9
Nondurable goods	733.9	761.0	803.8	871.4	9.7	3.7	5.6	8.4	7.8	3.4	6.5	9.2
Services	887.1	986.4	1074.2	1177.3	13.1	11.2	8.9	9.6	12.2	10.4	8.2	10.5
Investment outlays	474.9	414.5	470.9	576.2	18.2	−12.7	13.6	22.4	15.7	−20.7	40.0	13.9
Fixed investment	456.4	439.1	479.6	560.8	10.9	−3.8	9.2	16.9	8.2	−6.1	19.3	12.7
Nonresidential	352.2	348.3	348.9	412.5	14.1	−1.1	.2	18.2	15.9	−8.3	11.6	15.9
Structures	133.4	141.9	131.5	143.6	20.2	6.4	−7.3	9.2	27.0	−4.7	−2.7	11.2
Equipment	218.8	206.4	217.4	268.8	10.6	−5.7	5.3	23.6	9.6	−10.7	21.7	18.5
Residential	104.3	90.8	130.7	148.3	1.4	−13.0	44.0	13.5	−13.9	2.7	46.2	4.2
Change in inventories	18.5	−24.5	−8.7	15.4	*	*	*	*	*	*	*	*
Net exports	26.3	17.4	−7.1	−21.2	*	*	*	*	*	*	*	*
Exports	368.8	347.6	336.8	383.9	8.9	−5.7	−3.1	14.0	7.4	−13.3	9.5	16.0
Imports	342.5	330.2	344.0	405.2	8.8	−3.6	4.2	17.8	6.1	−7.5	17.4	15.0
Government expenditures	595.7	649.2	690.0	753.4	10.8	9.0	6.3	9.2	11.4	9.1	3.1	12.7
Federal	229.2	258.7	275.2	302.2	16.3	12.9	6.4	9.8	20.3	12.4	−1.3	16.1
National defense	154.0	179.4	200.2	229.4	17.4	16.5	11.6	14.6	19.8	14.5	8.0	18.6
Other	75.2	79.3	75.0	72.8	14.2	5.4	−5.5	−2.9	21.0	8.2	−21.4	8.6
State and local	366.5	390.5	414.8	451.2	7.5	6.6	6.2	8.8	6.2	7.0	6.2	10.5
Final sales	2935.6	3097.5	3319.5	3672.0	11.1	5.5	7.2	10.6	9.7	4.9	8.2	11.4
Final sales (const. 1972$)	1505.3	1494.8	1538.4	1618.6	1.8	−.7	2.9	5.2	1.2	.2	4.3	4.8
Personal income	2435.0	2578.6	2742.1	3014.6	12.5	5.9	6.3	9.9	11.1	4.6	7.7	10.1
Disposable income	2047.6	2176.5	2335.6	2574.4	12.0	6.3	7.3	10.2	11.1	5.1	8.8	9.9
Disposable income (1972$)	1054.7	1060.2	1094.3	1152.6	3.2	.5	3.2	5.3	3.4	.2	5.2	4.1
Saving rate (per cent)	6.6	5.8	4.9	4.8	*	*	*	*	*	*	*	*
Pretax profits	227.0	174.2	205.9	249.5	−3.2	−23.3	18.2	21.2	−7.3	−22.9	32.2	19.6
Nonfinancial	208.5	155.2	176.1	219.9	−.4	−25.6	13.4	24.9	−4.4	−28.4	33.7	22.0
Domestic operating	150.2	124.0	175.0	227.7	24.9	−17.4	41.1	30.1	16.4	−23.3	80.2	15.5
Domestic inventory	23.6	8.4	9.4	16.0	*	*	*	*	*	*	*	*
Capital consumption adj.	11.0	1.1	−30.9	−50.7	*	*	*	*	*	*	*	*
Foreign	23.7	21.8	22.5	26.9	−20.7	−8.0	3.3	19.3	14.5	−10.4	7.9	7.7
Financial	18.4	19.0	29.8	29.6	−27.3	3.3	57.2	−.7	−32.8	45.1	23.0	3.8
After-tax profits	144.1	115.1	130.2	158.0	−3.8	−20.1	13.1	21.4	−3.4	−19.9	24.4	18.7
Plant & equipment exp.	321.5	316.4	301.7	344.6	8.7	−1.6	−4.7	14.2	9.4	−7.6	4.1	15.5
Private housing starts (3)	1.08	1.06	1.70	1.76	−16.1	−2.0	60.2	3.6	−42.2	44.9	33.1	−2.3
Auto sales-incl. imports (3)	8.54	7.98	9.18	10.85	−4.9	−6.5	15.0	18.0	−18.6	16.6	17.8	10.7
Industrial production (2)	151.0	138.6	147.6	163.0	2.7	−8.2	6.5	10.5	−1.7	−7.5	15.1	6.9
Unemployment rate (per cent)	7.5	9.5	9.4	7.5	*	*	*	*	*	*	*	*

(1) index number, base 1972 = 100
(2) index number, base 1967 = 100
(3) millions of units
*Not applicable

Economics Department
February 29, 1984

are being encouraged to buy, too, by the relatively low rate of inflation—and in some cases, perhaps by fears that prices may go up more rapidly later in the year. In addition, there are unquestionably still pent-up demands for some big-ticket durable goods, especially automobiles. Consumers cannot look forward to another income tax cut this summer, and the fall in the stock market, if it is extended, could conceivably put something of a damper on the willingness to spend, but probably not to any great extent while employment and incomes are rising.

Spending by Business In the past, as economic expansions were extended spending by business assumed a leading role in propelling the economy forward, and this promises to be true this time. Plant and equipment outlays recovered both sooner and more strongly last year than was anticipated, and surveys show that, with the notable exception of the electric utilities, company managements in recent months have gradually been revising upward their capital spending plans for 1984. That an expansion of business investment programs is under way is confirmed by the uptrend in new orders for machinery and equipment and by an increase in manufacturers' new capital appropriations. The continued rise in factory operating rates and the increase in corporate profits—and even greater growth in cash flow—are additional grounds for expecting an acceleration in capital expenditures; for manufacturing as a whole, the operating rate in January was roughly 80 per cent of capacity, a level which, in the past, has touched off a wave of new investment spending.

Plant expansion programs doubtless will still be tempered because of the problems confronting the nation's smokestack industries, although contracts for industrial building have, in fact, picked up in recent months. Also, some large companies continue to exhibit a preference for expanding through mergers and acquisitions rather than building new facilities. At the same time, the pressures to modernize, cut operating costs and improve efficiency are being intensified by keen competition, including foreign competition. Until there is an apparent weakening in final demand, these considerations are likely to outweigh the constraint of high financing costs and an unsettled stock market.

Business activity is sure to receive a lift in the next few months as well from industry's need to add to inventories. Stocks on hand, especially in manufacturing, are unbelievably low for this stage of an economic expansion, as purchasing agents and buyers have continued to exercise unusual restraint and business sales have run ahead of expectations. Memories of the heavy recession-spurred liquidation and the prevailing high cost of carrying inventories would seem to rule out any rush to build working stocks this year. However, with order backlogs rising and delivery times gradually being extended, most company managements will find it necessary to move to fill out and balance inventories to take care of their customers, thereby providing more of an underpinning to industrial production and employment than in the latter months of 1983.

Support from Government In addition, the impact of the expanding defense program will continue to make itself felt. There has been a sizable, albeit highly irregular, rise in military ordering and an even bigger increase in Defense Department obligations during the past year. As more and more weapons projects move from the planning stage into actual production output will advance further, and the growth of defense spending, which so far has lagged behind official projections, will accelerate, with a ripple effect. Nondefense Federal outlays are not likely to speed up this year, but thus far they are running ahead of the budget estimates. And with their generally improved financial condition, most state and local governments can be expected to step up purchases of goods and services in 1984, especially construction programs.

No real stimulus to business activity, admittedly, is to be anticipated from our foreign trade sector, which has been a conspicuous drag on the economy since before the advent of the 1981-82 recession. Still, U.S. exports have begun to improve modestly in recent months, and with economic growth picking up among many of our important trading partners the trend of exports should continue upward, in spite of the alarming loss of competitiveness of American goods in world markets owing to the prolonged strength of the dollar and this country's relatively higher labor costs. At the same time, U.S. imports are not likely to grow as rapidly in 1984 as they did last year.

In short, weighing all of the forces at work does not point to an economy that is vulnerable to early and appreciable weakening. Rather, of more concern at the moment is that the newly evident momentum in business activity may be sustained for a time, thereby adding to the upward pressures on interest rates and fueling inflation fears, with attendant adverse implications for the performance of the economy in 1985.

The Inflation Picture Striking as the slowing in the uptrend of prices has been during and since the 1981-82 recession, it has been insufficient to dispel the lingering inflationary expectations among financial market participants. While no revival of the wage-cost-price spiral experienced in the initial years of the 1980s certainly is in the cards for this year, looking ahead the inflation picture is not as reassuring as is popularly assumed; the general record of forecasting inflation over the years is far from impressive. The consumer price index has risen faster in the second year of every business expansion since World War II, with the notable exception of that following 1980, when prices already were advancing at a double digit rate. The leading index of inflation developed by the Center for International Business Cycle Research at Columbia University points to a like pattern in 1984. Also, there is no longer so much overall slack in the economy as to forestall price pressures from here on, and the inflation rate is vulnerable to any weakening in the dollar. ■